

Internal Revenue Service

District
Director

Department of the Treasury

1100 Commerce St., Dallas, Texas 75242

Date: APR 07 1995

Person to Contact:

Telephone Number:

Refer Reply To:

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code.

You are a [REDACTED] non-profit association conducting annual user conferences for persons or firms who license and use a specific proprietary product. [REDACTED]; your organization was formed in [REDACTED]. Your income is from registration fees for your conference; your expenditures are for conference and other administrative expenses. Your charter states that you will provide certain services for your members in addition to the conference. These include maintenance of a library and tools contributed by members. You have committees which, among other functions, make recommendations for enhancements of [REDACTED] to the manufacturer of that product.

Section 501(c) of the Code describes certain organizations exempt from Federal income tax under section 501(a) and reads, in part, as follows:

(6) Business leagues, chambers of commerce, real estate boards, boards of trade. ***, not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual."

Section 1.501(c)(6)-1 of the regulations provides as follows:

"A business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining, is not a business league. ***"

Revenue Ruling 74-147, 1974-1, C.B. 136, held that a nonprofit organization, whose members represent diverse businesses that own, rent, or lease digital computers produced by various manufacturers, and that is organized to improve the efficiency of its members' use of computers, qualifies for exemption under section 501(c)(6) of the Code. Their common business interest was the use of digital computers: their purpose was to provide a forum by means of which the

members could exchange information, improve their efficiency in using computers, and thereby improve the overall efficiency of their business operations.

In the case of National Muffler Dealers Association, Inc. vs United States, 440 U.S. 472, Ct. D. 1997, 1979-1 C. B. 198 (1979), the United States Supreme Court held that an organization of dealers did not qualify for exemption as a business league because its line of business was too narrow to satisfy the line of business test. The Court held that tax exemption under section 501 is not available to provide competitive advantage of one group over another within an industry.

Revenue Ruling 58-294, 1958-1. C.B. 244, also found that users of a single patented product served only a segment of a line of business and thereby failed the line of business test.

Revenue Ruling 83-164, 1983-2 C.B. 95, held that a nonprofit organization, whose members represented diversified businesses that used one particular brand of computer was not exempt under Code section 501(c)(6). Their common business interest was the use of a proprietary system made by a single manufacturer. Their activities provided a forum for the exchange of ideas in the form of conferences where operational and technical problems relating to the use of the system were discussed. Vendor representatives attended the conferences and disseminated current product information. Their income came from registration fees, and their expenses included conference and other administrative costs.

Your organization is composed of diverse businesses whose common interest is the use of the [REDACTED] product. You conduct conferences as a means of sharing information concerning the use of this product and thus enhance your members' operational efficiency. We contend that the line of business test is not met by your organization. Your organization, unlike the one in Rev. Rul. 74-147 above, uses a licensed product of a single manufacturer; thus, it is beneficial only to segments of the various businesses to which members belong and its activities do not improve business conditions in one or more lines of business within the meaning of section 1.501(c)(6)-1 of the regulations.

Accordingly, you are not entitled to recognition of exemption from federal income tax under Section 501(c)(6) of the Internal Revenue Code.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible.

[REDACTED]

If you have any further questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely,

Signed
4-7-95

[REDACTED]
District Director

Enclosures:
Publication 892
Form 6018